

Strategic Committee on Postsecondary Education
Minutes
June 8, 2001

The Strategic Committee on Postsecondary Education met June 8, 2001. The following members were in attendance: Ms. Taylor for Ms. Adams, Mr. Barger for Mr. Baker, Mr. Barrows, Mr. Davies, Mr. Ed Ford, Mr. Hackbart, Ms. Helm, Mr. Kelly, Ms. Luallen, Ms. Miller, Mr. Moberly, Governor Patton, Mr. Ramsey, Mr. Rose, Mr. Sanders, Mr. Stivers, Mr. Turner, and Mr. Williams. Members absent: Mr. Boswell, Mr. Danny Ford, Mr. Hoover, Mr. Karem, Ms. Menendez, Mr. Neal, Mr. Richards, Mr. Stumbo, and Mr. Whitehead. Ms. Weinberg chaired the meeting.

The February 7, 2001, minutes were approved as presented.

Ms. Weinberg informed the committee that the Council on Postsecondary Education had a planning session retreat and spent a great deal of time discussing the work plan for the coming year.

Dr. Charles Wethington, President of the University of Kentucky, spoke to the committee. Dr. Wethington stressed the importance and the need to preserve the Research Challenge Trust Fund's Endowment Match program (RCTF "Bucks for Brains"). UK is focusing on improving, benefiting, and bringing in new people and resources to the Commonwealth of Kentucky through the RCTF.

The guidelines of the RCTF that have provided for endowed chairs, endowed professorships, graduate fellowships, and other kinds of graduate mission support activities are on target in recognizing what must be done in order to attract and keep excellent professors.

By the end of June, UK will have established 42 endowed chairs and 123 endowed professorships through RCTF monies. The numbers at UK have increased to 76 endowed chairs and 153 endowed professorships. So the Fund is working. The efforts are paying off. And they will continue to pay off.

For example, through the generous support of the Abercrombie Foundation, UK established a \$1 million Pin Oak Stud Endowed Research Fund. Not for a chair or a professorship, but the income from that gift was recently used for the critical issue of mare/foal syndrome that is affecting the horse industry in Kentucky. Income from that endowed research fund was used to assist professors working to solve this serious economic problem plaguing the Commonwealth of Kentucky. Again, this is yet another reason why these funds should be available for initiatives other than an endowed chair.

The University of Kentucky has been able to attract numerous top people to fill its endowed chairs. For example, the public finance program at UK has achieved a ranking in the top five nationally – a level of reputation not seen before. So in all of these programs, and with these people, UK is enhancing and building its reputation which is right in line with what was

envisioned in the Postsecondary Education Improvement Act -- to build a top 20 public research university at UK.

Through the RCTF's Endowment Match program, UK has established the nation's first aluminum technology center with an endowment of \$3.6 million. This center does not involve endowed chairs and professorships but is for research involving our College of Engineering collaborating with the aluminum industry. UK has already attracted some \$15 million in federal contract and grant activity as a result of establishing this aluminum technology center. Economic development for the state through various research initiatives has been enhanced by the RCTF. By the end of June, UK will have matched \$56.5 million of the second round of RCTF funding.

In closing, Dr. Wethington thanked the committee for its support of the University of Kentucky and encouraged the committee to continue to provide financial support to the RCTF.

Mr. Davies noted that President Kern Alexander of Murray State University was leaving office at the end of June and was unable to attend this meeting, but extended his congratulations to SCOPE and higher education for the progress made in recent years.

President Bob Kustra of Eastern Kentucky University, leaving office at the end of June, also shared some thoughts with the committee.

Dr. Kustra indicated that one of the truly impressive things about working in Kentucky higher education, and as president of Eastern Kentucky University, was to report to groups like SCOPE and to see that while there are differences of opinion in a variety of areas and issues in state government, when it comes to education, everyone seems to be devoted and dedicated to putting aside the differences and focusing on higher education reform.

Governor Patton deserves tremendous credit for the role he has played in putting postsecondary education first and foremost at the top of the public agenda. Dr. Kustra also congratulated legislative leaders for standing alongside the Governor and making higher education and education reform in Kentucky such an important agenda item. Gordon Davies established a vision for this state that is remarkable and if he continues on that mission, he will continue to distinguish Kentucky even beyond the way it is distinguished today.

Dr. Kustra said that he has worked alongside the presidents of these Kentucky institutions, and he's very proud of the work they are doing. He fully appreciates that they also are struggling with cultures on their campuses that have not adapted to the real competitive workplace and marketplace in higher education in the 21st century. They are going to need support.

He thanked the committee for this particular opportunity and experience. It has been a real delight.

Dr. Sue Hodges Moore provided the committee a presentation on postsecondary education reform progress.

Reform started with two things – the Commonwealth’s goal for Kentucky and the Postsecondary Education Improvement Act of 1997. The Commonwealth’s goal is to set Kentucky on the path to achieving economic opportunity and a standard of living above the national average in 20 years.

The six goals in HB 1 continue to frame the work of reform. Goals 2,3,4, and 5 focus on the public institutions of postsecondary education. Goals 1 and 6 refer to building an efficient, responsive, and coordinated system of postsecondary education that is adequately funded and strategically planned.

The goals in HB 1 address the need to improve the standard of living and quality of life of Kentuckians. Postsecondary education is a means to an end and that is better lives for Kentuckians.

Over the last four years, efforts have been concentrated on the capacity of our institutions to fulfill the goals that have been set for them; to create a true system of postsecondary education; to move beyond our system of postsecondary education to create a web of relationships with other individuals and groups; and to put into place a way to measure progress as we move toward 2020.

Accreditation. A number of issues had to be worked through with the regional accrediting agency, the Southern Association of Colleges & Schools (SACS), as community colleges and technical schools were brought together into a single institution. Presidents Wethington, McCall, and Davies went to visit SACS together and assured them that we were working through these details.

Enrollments. The KCTCS grew 15 percent from 1998 to 2000 and in so doing has already exceeded its 2002 enrollment goal by 2,000 students. The KCTCS has organized the community and technical colleges into 16 districts -- 13 of which have a single CEO who oversees the community and technical colleges within that district. Already, four local communities have decided to consolidate the community and technical colleges within a district.

The KCTCS’ presence extends well beyond these physical campuses into the virtual world. Of the 12 undergraduate programs in the Kentucky Virtual University (bachelor degrees, associate degrees, certificates, and diplomas), the KCTCS offers or is a partner in offering seven. The KCTCS is also responsible for over 50 percent of the enrollments in the Kentucky Virtual University as of spring of this year.

Through the Workforce Development Trust Fund that was established, \$12 million initially appropriated in the 1998-2000 biennium and a continuation of that \$6 million each subsequent fiscal year, the KCTCS has the capacity to develop the workforce training programs, to create a single point of access for employers, and to provide low cost or no cost workforce training in the workplace in exchange for job retention and job creation.

In the comprehensive universities, a good portion of the capacity building that took place in the early years of reform was with the programs of distinction: the Justice and Safety Program at

EKU; the aquaculture program at KSU; the institute for regional analysis of public policy at MoSU; the telecommunications system management program at MuSU; the center for integrative sciences and mathematics at NKU; and the applied research in technology program at WKU.

Teacher preparation is receiving renewed commitment from all colleges and universities, but in particular at the comprehensive universities. In this biennium, the Regional University Excellence Trust Fund includes \$10 million to advance the 2020 vision and the action agenda. Approximately \$3.4 million of that amount is going into the improvement of teacher preparation. HB 303, introduced in the 2001 session of the General Assembly, encouraged the council to dedicate up to \$4 million annually to teacher preparation.

Postsecondary education regional centers are being built in seven different communities. They are at different phases of development from design at one to actual construction at three. These centers will become homes for courses and programs that are offered by colleges and universities all over the Commonwealth, but the managers of those resources will be the KCTCS and four of the comprehensive universities.

At the two research universities – UK and UofL – capacity was built through the Bucks for Brains program. A total of \$460 million in endowment funds – with \$60 million of that amount targeted for the comprehensive universities.

Goals 1&6 – creating an efficient, effective, and responsive system of postsecondary education. With HB 1 as the foundation, the 2020 Vision document was developed as a translation of HB 1 into a brief and understandable document. The companion document is the Action Agenda that focused on work for the 1999-2004 period.

Enrollments. A goal was set in 1998 for an additional 80,000 students at the undergraduate level in the system by the year 2020. That many more students are needed if Kentucky is to be at the national average in educational attainment and college going and graduation rates. The goal for 2000 of 164,000 students has been surpassed by 5,500 students. This year, 9,000 more students are being served than in 1998.

The Kentucky Virtual University has contributed to this increase. In virtual institution circles, it is viewed as one of the most successful start-ups in any state or any multi-state virtual university in the nation. Students from all 120 counties, 32 states, and 11 countries have taken courses. The KYVU has offered 310 credit courses since 1999. Starting in the fall, the KYVU will have about 60 non-credit courses up and running. In both credit and non-credit courses, there will be about 60 providers of courses on the virtual university in the fall -- all of the public universities, the KCTCS, some independent institutions, and also corporate and not-for-profit providers from both inside and outside Kentucky.

As a result of work on the KYVU, last year the Council on Postsecondary Education was the recipient of the prestigious Smithsonian Award that recognizes outstanding technology initiatives across the nation.

The Kentucky Virtual Library (KYVL) received 1.2 million transactions in February and March of this year. The virtual library has been recognized as an outstanding initiative in 2000 by SOLINET (Southern Library Network).

Academic programs. In response to student demands and employer needs, the universities have started 85 new programs since 1997. They have also closed 149 programs.

The independent institutions play a vital role in helping meet the needs listed in HB 1 in producing graduates and educating our workforce.

The new economy: Postsecondary education was given responsibility by the 2000 General Assembly, through its enactment of HB 572, to help Kentucky move from an old economy to the new knowledge-based global economy. Also, there is the statewide engineering strategy that the council put in place last year where the comprehensive universities partner with either UK or UofL to deliver engineering programs throughout the state.

Adult education. As a result of SB 1, enacted in the 2000 session, a comprehensive strategy to significantly improve the knowledge and skills of Kentucky citizens is in place. Kentucky's adult literacy survey suggests that out of the 2.4 million working adults in Kentucky ages 16-65, one million of them function at very low levels of literacy. Of that 1 million, only about 50,000 are served. A statewide strategic agenda for adult education is now in place to help increase those numbers.

The council, in working with the Department of Adult Education & Literacy in the Workforce Development Cabinet, has put together a nine-point plan for implementing SB 1. Two principles have been driving that work. One is that all investments become scalable. The second is that these investments help build capacity at the local community level. Twenty partners in adult education were involved in creating all of these plans and budgets.

P-16 (preschool through the baccalaureate degree). HB 1 stressed the importance of the postsecondary education system helping to improve elementary and secondary education. In 1999, the State Board of Education and the Council on Postsecondary Education had a joint meeting and the P-16 Council was formed. The P-16 Council is comprised of three members of the Council on Postsecondary Education, three members of the state board, the commissioner of education, and the president of the Council on Postsecondary Education. This group has met regularly since June 1999. The Council on Postsecondary Education is providing financial support to create local P-16 councils.

Related to this initiative, an 18-month long public communications campaign geared to getting more students (including adults) to go to college began last week.

Accountability system. The council has approved a key indicators of progress program framed around five fundamental questions. 1) Are more Kentuckians ready for postsecondary education? 2) Are more students enrolling? 3) Are more students advancing through the system? 4) Are we preparing Kentuckians for life and work? 5) Are Kentucky's communities and economy benefiting? The council has approved 6-10 indicators, actual quantitative

performance measures, that fall under each of these five questions, and has established goals for about half of them. Goals will be set for the others between now and the end of the year. These five questions will help keep the focus on the public agenda, which is to help improve the lives of Kentuckians.

Between the time that reform was put into place and now, the overall growth in the General Fund in postsecondary education appropriations has been about 45 percent. At the same time, total General Fund revenue for the state has grown by about 20 percent.

The net results of these investments are a general fund appropriation for postsecondary education totaling \$1,160,000,000 in fiscal year 2002: nearly \$1 billion of that is in the institution base budgets; over \$100 million is in the trust funds; about \$50 million is in student financial aid programs; and about \$10 million is in the council and KYVU and KYVL and other funds that pass through to various organizations and agencies. This is the current investment in Kentucky postsecondary education.

The increases that postsecondary education has enjoyed since reform won't be easy or necessarily possible to sustain as we move into the 2002-04 biennium. So the question is can we sustain reform without an infusion of new state dollars. The answer is yes. Something incredibly important was done when this reform was put into motion. This is not the time to turn back.

Sen. Sanders asked how Kentucky compares to the U.S. in numbers of Kentuckians that graduate. Mr. Davies replied that about 45 percent of people who start college graduate with degrees in six years and about 67 percent who graduate from high school go on to some form of postsecondary education. For Kentucky it is closer to 52 or 53 percent. And something between 70 and 75 percent of people who start the ninth grade finish high school. Sen. Sanders requested information on the rankings of where we stand with other states.

Rep. Turner asked if records were kept showing how many Kentuckians were being educated. Dr. Moore stated that these records are kept and that issue would be kept in mind in future reporting.

Sen. Williams was concerned about the confusion about Bucks for Brains and the ability to raise and match money from the private sector and whether this would continue to be a confidential matter or a matter of public record. He asked whether the council had conducted a study of this matter. Mr. Davies stated that such a review would be done before January 2002. He also stated that the council has created a subcommittee to look at the guidelines for the Bucks for Brains and that subcommittee would examine this issue.

Mr. James Ramsey, state budget director, provided a short-term fiscal outlook for the Commonwealth.

Kentucky's economy is driven in a very large measure by what happens in the national economy. Kentucky has had solid economic growth since 1992. In fiscal year 2000, there was a significant drop in projected economic growth for 2001 and then another more significant drop is estimated

in the growth rate in 2002. Kentucky is still growing. We are not, at this point, in a national recession.

When the Consensus Forecast Group provided revenue estimates that were used to build the budget in the 2000 legislative session, we were at the peak of the business cycle in terms of gross domestic product. The Consensus Forecasting Group expected a slow down, but not of the magnitude that we are now experiencing. The projections for fiscal year 2002 are calling for national growth at the lowest level since 1992 when we were coming out of the recession.

Kentucky has been very fortunate -- 18 years of uninterrupted economic growth -- growth in jobs, non-agricultural employment, and state personal income.

Over the six or nine months preceding November and December 2000, we experienced a significant "correction" in the stock market. People's portfolio values went down. They felt less wealthy and that impacted their consumption and their buying patterns.

November and December were extremely cold. We had high gasoline prices for some period of time and we had dramatic increases in natural gas prices, propane prices, and even electricity. And that squeezes spending out of more discretionary parts of people's household budgets.

The Christmas season was weak in terms of retail sales. And most importantly, with all of these things coming together, we have had a very dramatic drop in consumer confidence -- people put off purchasing goods particularly big-ticket items such as automobiles, refrigerators, etc., which in turn has created a loss in business confidence. Businesses began to draw down their inventory and make business decisions reacting to a personal slow down in economic activity. That is what has occurred in the Kentucky economy. There has been a slowdown in job growth.

While jobs are still being added in Kentucky, manufacturing jobs are being lost -- especially durable manufacturing jobs. Kentucky has been losing non-durable jobs for a number of years. Our textile industry has been hit the last several years and those are non-durable manufacturing jobs. But the durable manufacturing jobs (automobiles, appliances, business equipment) are the better-paying jobs. So when durable manufacturing jobs are lost, that has a significant impact in terms of state personal income. Until recently we had been losing the non-durable jobs, but we had been adding durable jobs. Jobs are still being added, but at a much slower rate. Since 1994 we have had level non-durable employment.

Jobs mean income and there has been real growth in personal income in 2001. Growth in personal income is expected in 2002 but at a much-reduced rate -- reflecting job loss in key sectors -- not just manufacturing but a slow down in construction, a loss of some agricultural jobs and, in certain cases, losses in mining jobs.

Slower state personal income growth means slower General Fund revenue growth. There is a correlation between state revenue growth and personal income growth. Normally that is about 1:1 but what happens when there is a significant slow down in state personal income is that it has sort of a magnified effect in terms of revenue. That 1:1 correlation really becomes about .5 and that is what we are beginning to experience now.

Revenue outlook: The January 2000 session Consensus Forecast Group's revenue outlook at that time was \$6,813,000,000 for FY 2001 – 5.9 percent growth over the prior year. Then the Consensus Forecasting Group said what we should expect and build our budget on is \$7,182,000,000 in FY 2002 – an estimated 5.4 percent growth and so that was the basis for the budget and budget discussions at that time.

In March, the Consensus Forecasting Group met and re-estimated for the current year and lowered the FY 2001 estimate to \$6,721,000,000 – about a \$92,000,000 revenue shortfall for FY 2001. Once the Consensus Forecasting Group does an official revision, by statute we are required to take action to ensure a balanced budget.

We worked with a figure of \$117 million and the reason for that is that the General Assembly budgeted a \$15 million lapse and we needed to ensure that we had that \$15 million covered. Throughout the budget year there will be what's called necessary government expenses -- things that have to be paid (for example, forest fires in Eastern Kentucky). Funds were not budgeted for those expenses so those costs were estimated to be about \$10 million. The required lapse of \$15 million was added to estimated necessary government expenses of \$10 million -- another \$25 million to the \$92 million projected revenue shortfall – and adjustments at the start of April totaled \$117 million.

General Fund revenue growth has been very slow the last several months. Revenue growth in April was 1.9 percent. With the revised consensus forecast in March, 3.8 percent growth rate is needed for the remainder of the year in order to achieve the revised 2001 revenue forecast. The calculated economic growth rate for May is 2 or maybe 2.1 percent -- well below the 3.8 percent figure. So the Governor's Office for Economic Analysis did an internal re-estimation for the current year. It is unofficial. It is not the consensus forecast estimate but the best guess is \$6,654 million and the difference from the enacted budget – the \$159 million figure – is just the difference from the enacted budget.

The State Budget Office internal group estimated the next fiscal year and the preliminary unofficial guess is that the shortfall in General Fund revenue in the second year of the biennium could be \$315 million.

The goals and principles through 2001 have been to exempt education from any cuts -- all of education. The administration has been very committed to ensuring that postsecondary education be off the table in terms of any 2001 budget cuts.

There are a number of other states that are dealing with these issues and one of the things some of those states are doing is stopping all capital construction spending. That has not been done in Kentucky. We don't think that is wise. That type of investment, whether it is higher education, water and sewer projects, or infrastructure is important to the future of the Commonwealth, so any type of action in that direction has not been taken, nor are there plans at this time to do so.

Through the current cutback process, layoffs and what could be considered a serious programmatic impact have been avoided. This is outlined in the budget education plan. Lapses,

cabinet budgets, all budget accounts, agency funds, and excess, unbudgeted restrictive funds have been reviewed. Monies that would not be spent and fund transfers that could be made have been identified. We are reaping a benefit of our Empower Kentucky program -- a greater benefit than ever anticipated.

A very important piece of legislation enacted in the 1997 Special Session, HB 5, allowed thorough modernization of financial management programs. Great benefits of that legislation in terms of reduced debt service costs are being reaped. A big dividend payment in terms of debt service savings and additional investment income is helping through 2001. So far \$21 million has been spent from the Budget Reserve Trust Fund (BRTF) but the budget's still not yet balanced in 2001. More may have to be taken out of the BRTF before the fiscal year is over. A \$315 million revenue shortfall for 2002 would be the largest revenue shortfall in modern history.

All of this is based on our preliminary, unofficial estimates.

Sen. Kelly asked what would happen if the economy had a one or a two percent upturn in the growth that was not anticipated. Mr. Ramsey replied that for 2002, they are forecasting a turnaround in January of next year. They are assuming the economy will bounce back by January 2002. That is an assumption that has been made. The Consensus Forecasting Group will determine whether or not that is a good assumption.

Sen. Williams asked how the relative shortfall relates to what has been done in the past and how the size of the budget is different than it was in years past. Mr. Ramsey replied that the size of the budget is markedly bigger now. The largest revenue shortfall in percentage terms, 13 percent, occurred in 1982.

Mr. Ramsey stated that the goal in 2002 is to maintain the commitment to education, education, education, and education -- early childhood, K-12, postsecondary, and then adult and lifelong learning. Education is critical to the long-term future and long-term prosperity of the state.

The total education budget is roughly \$4.2 billion. It is 57 percent of the entire state budget. If education is exempted from any budget adjustments, the burden for those adjustments then falls on the other 43 percent of the budget. Thus, if the shortfall is 4.7 percent and if education is exempted, and if all cuts are spread among the other cabinets, the magnitude of the cuts on all other areas of the budget would be about 10 percent.

There will be lapses in 2002, and the BRTF is available. The budget reduction plan specifies that up to 50 percent of the BRTF balance can be used in 2002. The administration still would like to exempt education from any adjustments that will have to be made. However, it is going to be extremely difficult to balance the 2002 budget. But that is our goal. Mr. Ramsey pointed out that everything he has discussed today is preliminary and unofficial. It will become official June 14. And at that point, they will try to make whatever budget adjustments they can at the start of the fiscal year. Lapses, amounts that can be taken from the BRTF, and any other cuts or adjustments in other state programs will be identified.

Ms. Weinberg asked if postsecondary education had to tighten its belt, what would be the percentage cut that might be considered a reasonable planning target for institutions. Mr. Ramsey reiterated that the administration's goal is to do everything to exempt education but that all state agencies have been asked to do budget cutback contingency planning at the five percent level.

Sen. Kelly asked if the fact that higher education has been receiving a higher percentage of growth over the last few years doesn't complicate further its ability to deal with cutbacks and meet higher education goals when other units are closer to their base when they look at budget reductions. Mr. Ramsey replied that it does. However, the benchmark funding model that the council has developed indicates that there is still distance to cover to get our institutions to 55 percent of their benchmarks. Thus, there is still work to be done in terms of necessary funding for higher education. There are a lot of initiatives that are important to the Governor and to others. For example, Rep. Moberly has talked about teacher salary initiatives in K-12, trying to make a statement in that critical area of state spending.

There are a lot of things that need to be done in education and Mr. Ramsey said that want to do it without having to reduce the base and start from lower bases to try to get to those goals. With the internal, preliminary, unofficial estimate about the amount of available revenue, if the numbers are right, in 2002 it would be only about \$50 million more than the revenue budgeted in 2001. Now the 2001 budget is being cut. But when the discussions and the debate and dialogue from January, February, and March of 2000 are put in that context, we would be dealing in 2002 with just a little bit more -- about one percent more -- than the money we budgeted in 2001.

Governor Patton stated that there is some money available in 2002 -- for example, debt service payments because the bonds have not been sold -- thus there will be some money left over. Probably around \$120 million can be taken out of the BRTF. So the actual operating budget of the Commonwealth will not have to cut anywhere near the \$300-320 million figure. But these are generally one-time sources of money. What that means is that when preparation of the next budget begins we will have to make the cut that we funded with one-time sources. Mr. Ramsey said that while he is being optimistic he thinks we can get through 2002 without a whole lot of pain. He thinks the real problem is going to come when we start writing the 2003 and 2004 budgets. Then we will have to take into account these lower based revenue numbers. Prudence dictates that planning start now. The 2003 and 2004 fiscal years are going to be austere years.

Sen. Sanders asked Mr. Ramsey to comment on the resurgence of coal. Mr. Ramsey replied that in the short-term there won't be much change in coal severance tax revenue. What is being seen is a pick up in those severance taxes where we don't have many of the minerals -- e.g., natural gas. In mines where there is a pick up in activity, one of the problems is finding workers. And the change in production and mining methods is also an issue; it is a more technical process than just digging coal. And there are people in the short term that don't have the necessary technical skills.

Governor Patton re-emphasized that if higher education was not cut and there was a \$320 million shortfall, and if there was no other way to make that up except make programmatic cuts, it would be a 10 percent cut. But there will not be 10 percent cuts in the existing programs for next year

because there are some one-time sources of revenue available for budget balancing purposes. The Governor did not want anybody to think that that there is going to be a 10 percent cut in state government programs. That is not going to happen.

The meeting adjourned at about 1 p.m.